

## **Red Capitalism: Communist Cooption of Private Enterprise**

By Nevin Gussack

One of the little known aspects of the history of communism is its strategic usage of domestic capitalists to pave the way for communist revolution and to consolidate power through the strengthening of the post-revolutionary economy. In certain respects, such a strategic use of domestic businessmen mirrored that of the Nazis and Fascists. Initially, the Fascists and Nazis promised to nationalize large businesses, banks, and landholdings. The Nazis and Fascists postponed such plans in the interests of strategic pragmatism i.e. fear that such measures would damage the economic pillars necessary for an efficient and productive rearmament. Hence, the nationalization programs were to be postponed until the postwar period after an Axis victory. Unlike the communists, the Nazis and Fascists did not seek to nationalize all forms of private property. Similar to the Nazis and Fascists, a number of communist parties sought to utilize the funds and resources of private industrialists and bankers. The communists sought to conscript/recruit domestic businessmen to their cause for the following reasons:

- 1) To gain funds and sympathizers from industrialists who admired the commitment of the communists to a disciplined society, nationalism, or an idealistic-sounding utopia.
- 2) To re-establish the productive capacity of industries damaged or impaired as a result of intense civil wars (Russia and China).
- 3) To serve as fronts in trade deals with Western powers. Businessmen in noncommunist countries are more comfortable in dealing with private entrepreneurs than officials of state enterprises.
- 4) To serve as tools to convince Western liberals and even conservatives that certain communist takeovers did not constitute an all-out assault on world capitalism.
- 5) To serve as tools to recruit and lobby supporters of trade with the communists from foreign multinational companies. One forum for such lobbying and influence activities was the Moscow International Economic Conference (1952). Legions of Western businessmen, politicians, and left-wingers attended this Conference. Private bankers and industrialists from communist countries in attendance at the Conference included the Albanian financier and member of the Presidium of the National Assembly Qiriako Harito, Chang Nai-chi of the Preparatory Commission for All-China Federation of Industrialists and Merchants Association, Li Chu-cheng Chairman of the Tientsin Industrialists and Merchants Association, Sheng Pi hua of the Shanghai Industrialists and Merchants Association, and Yun Chu P.N. Woo General Manager of the Tien Chu Gourmet Powder Manufacturing Company Ltd. <sup>1</sup>

The ties between Soviet Communism and wealthy capitalists dated from the period before the Bolshevik Revolution of November 1917. This relationship was the first of many instances of how the collectivist enemies of free enterprise were supported by guilt-ridden, opportunistic, or self-hating sections of the wealthier elements of capitalist society. Such subsidies to the Bolsheviks were not unsubstantial or unnoticed by historians. Elements of the Russian business class supported the Bolsheviks primarily out of a misplaced left-liberal ideology or out of a view that Communism represented a pathway to a more nationalist and

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<sup>1</sup> Committee for the Promotion of International Trade. International Economic Conference in Moscow April 3-12 1952 (Moscow 1952)

disciplined Russian state. Wealthy sympathizers such as industrialist Savva Morozov donated 2,000 rubles a month to the Bolsheviks. Another 60,000 rubles from Morozov was donated by his estate under the care of Maxim Gorky's wife. Wealthy individuals and professionals such as writer Maxim Gorky, agronomist A.I. Eramasov, landed estates manager Alexander Tsiurupa (who in 1918 became Lenin's Commissar of Supply), the widow of Senator Alexandra Kalmykova, and actress V.F. Komissarzhevkaia, and others donated to Lenin and the Bolsheviks in the pre-1917 period. Leonid Krasin noted that *"it was regarded a sign of bon ton in more or less radical or liberal circles to contribute money to revolutionary parties and among those who quite regularly paid dues of from 5 to 25 rubles were not only prominent attorneys, engineers, and physicians but also directors of banks and officials of government institutions."*<sup>2</sup> Historian Mikhail Agursky noted that *"It was an open secret that one of the most important sources of the Bolsheviks' financial power was the secret subsidies they received from rich Russian merchants and industrialists. What were the motives of these rich men? Such support was in fact a widespread pattern in other countries as well and there was a variety of motivations behind it including personal perversity and anxiety regarding the future. One cannot generalize about the reasons for support of violent, radical movements that eventually turn on their wealthy patrons."* Agursky specifically observed that political naiveté and a sense of nationalism motivated the wealthy supporters of Bolshevism. Industrialist Savva Morozov specifically noted that he supported the Bolsheviks because he saw *"Russia as a huge accumulation of potential energy and it is high time to transform it into kinetic energy...That is why I say that we desperately need a revolution that might bring all the masses to their feet."* One of Lenin's aides Skvortsov-Stepanov reported to the future Russian leader in March 1914 that he was in contact with several wealthy and liberal Russian industrialists such as Alexander Konovalov and Pavel Riabushinsky. They pledged to support the Bolsheviks. Konovalov noted, on the behalf of Russian industrialists, that they *"lost their hope for, let us say, an organical solution and they are saying more and more insisently that is necessary to be ready for a non-organical or let us say superorganical solution."*<sup>3</sup> Such relationships were the beginning of a long collaboration between Soviet Communism and first elements of their native private business class and shortly thereafter, foreign multinational corporations and banks. Other communist states and movements followed suit in using native businessmen to achieve their ultimate goal of building collectivist totalitarian rule within their own nations and then for export to the Free World.

Former CPSU Politburo translator and Kremlin insider Lev Navrozov summarized the history of big business collaboration with Bolshevism, as witnessed by history and Navrozov's personal experience with the Soviet elites: *"Was not the Bolshevik Party under the Czar financed by private people who had made their money privately: the privately published writer Gorky or the private factory owner Morozov? Did not Parvus and Ganetsky, who passed the Kaiser's money both pose as private businessmen? It was private tradesmen who sold the Bolsheviks printing presses, weapons, and whatever was sold privately for money (and a lot was!). Was it not free enterprise that after 1917 gave such opportunities to agents of the possession power abroad? An agent would usually be a businessman of a kind, dealing with other businessmen who are ready sometimes to sell anything to anyone who will buy."*

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<sup>2</sup> Pipes, Richard. The Russian Revolution (Knopf Doubleday Publishing Group, 2011) page 367.

<sup>3</sup> Agursky, Mikhail. The Third Rome: National Bolshevism in the USSR (Westview Press, 1987) page 184.

Lenin noted in 1918 that *“The best workers in Russia have...have begun to learn from the capitalist organizers, the managing engineers and the technicians. They have begun to learn steadily and cautiously with easy things, gradually passing on to the more difficult things...the textile and tobacco workers and tanners are not afraid of ‘state capitalism’ or of ‘learning from the organizers of the trusts,’ as the declassed petty-bourgeois intelligentsia are. These workers in the central leading institutions like Chief Leather Committee and Central Textile Committee take their place by the side of the capitalists, learn from them, establish trusts, establish ‘state capitalism,’ which under Soviet power represents the threshold of socialism, the condition of its firm victory.”* Lenin praised the “advanced workers” for instituting “labor discipline” and noted that *“On the other hand, we must use the method of compromise, or of buying off the cultured capitalists who agree to ‘state capitalism,’ who are capable of putting it into practice and who are useful to the proletariat as intelligent and experienced organizers of the largest types of enterprises, which actually supply products to tens of millions of people...”*<sup>4</sup>

One document noted specifically that even in nationalized enterprises, the expertise of the ex-capitalists would be used to manage these new socialist enterprises: *“Comrade Lenin urged the complete nationalization of all trustified enterprises, with the group of capitalists who sponsored the project being enlisted in the service of the state. The joint meeting was held to discuss the project for setting up a trust (“The National Company”) proposed by a group of capitalists headed by A. P. Meshchersky, Managing-Director of the ‘Sormovo-Kolomna’ Industrial Association.”*<sup>5</sup>

Even during the period of the radical economic stage of Bolshevism of War Communism, Lenin and his comrades sought to maintain or develop some level of relations with Western business. Lenin also sought to expand trade with their kindred spirits in state capitalist Germany under the rule of Kaiser Wilhelm II. Germany’s state-controlled “private” economy was a model to be followed by the Bolsheviks. In March 1918, Lenin noted in The Chief Task of Our Day that *“Yes, learn from the Germans! History is moving in zigzags and by roundabout ways. It so happens that it is the Germans who now personify, besides a brutal imperialism, the principle of discipline, organisation, harmonious cooperation on the basis of modern machine industry, and strict accounting and control. And that is just what we are lacking. That is just what we must learn. That is just what our great revolution needs in order to pass from a triumphant beginning, through a succession of severe trials, to its triumphant goal. That is just what the Russian Soviet Socialist Republic requires in order to cease being wretched and impotent and become mighty and abundant for all time.”*<sup>6</sup>

The Bolsheviks sought to harness the expertise of potential domestic Russian businessmen during the NEP period. By 1920, the Russian Civil War devastated the Soviet economy and Lenin knew that he needed to preserve Bolshevik power. After communist power

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<sup>4</sup> Lenin, V.I. “Left-Wing Childishness” Accessed From:  
<http://www.marxists.org/archive/lenin/works/1918/may/09.htm>

<sup>5</sup> Lenin, V.I. “Speech at a Joint Meeting of Representatives of The All-Russia Central Council of Trade Unions, The Central Committee of the Metalworkers’ Union and The Supreme Economic Council. April 11, 1918” Accessed From:  
<http://www.marxists.org/archive/lenin/works/1918/apr/11.htm>

<sup>6</sup> Lenin, V.I. Collected Works II Accessed From:  
<http://www.afoicecomartelo.com.br/posfsa/Autores/Lenin,%20Vladimir%20Ilyich/Lenin%20CW-Vol.%2027.pdf>

was fully consolidated, then the new USSR could aggressively export their revolution to the non-communist world. However, the West would always be concerned by Bolshevik threats of aggression and subversion and Lenin realized that it would be more effective to falsely convince the world that communism was in its death throes. Hence, Soviet Russia was weak and therefore not a threat to the West. Hence, the Free World's businessmen could do business with Moscow. Thus, the New Economic Policy (NEP) and the system of foreign concessions were born. Lenin noted that NEP: *"As regards trade, I want to re-emphasize that we are trying to found mixed companies that we are already forming them i.e. companies in which part of the capital belongs to private capitalists-and foreign capitalists at that-and the other part belongs to the state. First, in this way we are learning how to trade and this is what we need. Second we are always in a position to dissolve these companies if we deem it necessary and do not therefore run any risks so to speak."*<sup>7</sup> Despite the limited private enterprise of the NEP period, Lenin made it clear that the Soviets held all the cards and could fold up all of these domestic Russian businesses at the snap of his fingers. Lenin made sure that under NEP, the state owned the *"commanding heights"* of the economy: heavy industry, transport, foreign trade, and banking.<sup>8</sup> In December 1921, Zinoviev noted: *"I ask you Comrades to be clear, that the New Economic Policy is only a temporary deviation, a tactical retreat, a clearing of the land for a new and decisive attack of labor against the front of international capitalism."* In 1922, Trotsky commented: *"As the ruling party, we can allow the speculator in the economy, but we do not allow him in the political realm."*<sup>9</sup>

During the 1980s and early 1990s, the KGB and the Soviet state controlled the economic reform process in the USSR. During this period, the government and CPSU remained in control behind the scenes. The purpose of Gorbachev's reforms was not to eviscerate totalitarian control from the economy; instead the effort was undertaken to modernize the socialist economy with private market mechanisms, on the model of Deng in China and Lenin during the NEP period. The new Soviet Law on Enterprise was published in July 1987 and drew praise in the Western press as supporting *"autonomy," "self-management,"* and *"self-financing"* which in reality was the CPSU Party organization directly running the enterprise.<sup>10</sup>

In the late 1980s, a new class of Yuppie-style Soviet managers developed as a result of Gorbachev's perestroika and was loyal to building the economy of the Soviet state. Aleksandr I. Rubtsov was the director general of Vneshconsult, which conducted studies of markets, costs and financing requirements for Soviet enterprises and foreign companies. It was opened in 1988 and had at least 50 competitors in the USSR. Rubtsov enjoyed an expensive imported car, fine West European suits, tennis court memberships, and yellow ties. Vneshconsult's partners included: V-O Vneshtekhnika; Finnish consulting firm, O.Y. Mec-Rastor A.B; and Ernst & Whitney (later Ernst and Young). Vneshconsult's foreign clients included a Finnish shipbuilder, a British

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<sup>7</sup> Nyquist, J.R. Origins of the Fourth World War (Black Forest Press, 1999)

<sup>8</sup> Pipes, Richard. Russia Under the Bolshevik Regime (Knopf Doubleday Publishing Group, 2011) page 394.

<sup>9</sup> Ibid, pages 369-370.

<sup>10</sup> Crozier, Brian. The Gorbachev Phenomenon and the Secret War (The Claridge Press, 1990) pages 47-48.

insurance company, two international hotel chains, and an American personal computer manufacturer which sought to assemble and sell its machines to the Soviet Union.<sup>11</sup>

These new jet sets of Soviet managers were known as the Young Tigers. The Organization of Young Communists funded over 300 entrepreneurial ventures, of which the Young Tigers sprouted. Thomas Horton of the American Management Association noted: *"They don't see any conflict in this. They don't see Communism conflicting with funding these organizations, which are about as far right as you can get-the absolute free market. It isn't the money that moves these people, even though they are making unheard-of profits. It's the desire to operate outside the ministries and have control over their own business."*<sup>12</sup>

The KGB also partially controlled joint ventures with Western and American corporations. By the mid-1980s the Fifth Main Directorate of the KGB had *"shifted its focus from monitoring political dissidents to manipulating dissident economists and reformers to create the perestroika economy,"* and the Sixth Main Directorate of the KGB began to concentrate on economic counterintelligence, economic security, and monitoring the fledgling *"cooperatives"* created under perestroika.<sup>13</sup>

Whenever the USSR inked a trade contract with Western businesses, they successfully secured a clause stipulating that quality control inspectors from the Goods Inspection Administration would inspect capitalist factories. This sophisticated operation was performed by deep cover KGB officers operating under the official auspices of the USSR Chamber of Commerce.<sup>14</sup>

In 1988, KGB Chairman Chebrikov issued Directive Number 0066, which defined that supervision of a Soviet-foreign joint ventures belonged to that Directorate whose responsibility covered the type of economic activity of the Soviet partner. The Fifth Directorate was empowered to deal with businesses in publishing, printing, or, for example, commercial sports events; the Fourth Directorate was responsible for cooperative enterprises in transportation and ocean fishery; the Second Main Directorate was in charge of commercial services for foreign visitors and tourists; while the Sixth supervised science and industry and the main coordination of the entire economy.<sup>15</sup>

The KGB spied on the joint ventures set up by the Soviets to attract Western capital. The First Main Directorate (the PGU) of the KGB secretly stood directly behind many of the new firms and joint ventures created under Gorbachev. Russian journalist Yevgenia Albats noted *"According to my sources funds from the (KGB and KPSS) were used to found nearly 80% of the new banks, stock markets and companies."* Albats noted that KGB agents had already acquired

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<sup>11</sup> "Soviet Yuppies Gorbachev's Economic Restructuring Produces New Breed of Free-Lance Executive" Sun Sentinel August 23, 1989

<sup>12</sup> Lesser, Lori. "Soviet Version of Yuppie Strives for Independence and Not Wealth" Deseret News November 6, 1988

<sup>13</sup> Littell, Jonathan. The Security Organs of the Russian Federation A Brief History 1991-2005 Accessed From: <http://psan.hypotheses.org/psan-publishing-house/j-littell-the-security-organs-of-the-russian-federation-a-brief-history-1991-2005-full-text-without-graphs>

<sup>14</sup> "KGB uses trade as a spy front" Herald November 4, 1987 page 20.

<sup>15</sup> Yasmann, Victor and Zubok, "The KGB Documents and the Soviet Collapse: Part II" Accessed From: <http://www.ucis.pitt.edu/nceer/1998-813-15-2-Yasman.pdf>

a great deal of commercial experience while setting up firms as “covers” for illegals “in countries with every variety of market economy imaginable.”<sup>16</sup>

Chekists have dominated much of the booming business community in Russia. According to one report, KGB officers are involved in 80 percent of all joint ventures.<sup>17</sup>

Komsomol officials were also deeply involved in the setup of the oligarch business class in Russia. Former GRU Lieutenant-Colonel, Anton Surikov, who adds: *“It was impossible to work in the black market without KGB connections and without protection from the KGB. Without them, no shadow business was possible...There was a conscious creation of a black market. The creation of the oligarchs was a revolution engineered by the KGB, but then they lost control.”* Surikov noted that *“The...Party was heading into a dead end, and the people from the Fifth and Sixth Directorate saw that a new impetus was needed. This was how perestroika was started.”* In December 1990, Vladimir Kryuchkov legalized the KGB’s commercial ventures by signing a decree forming KGB commercial structures. An August 1990 secret memo of the Politburo of the CPSU entitled *“Emergency Measures to Organize Commercial and Foreign Economic Activity for the Party:”* noted that *“Reasonable confidentiality will be required and in some cases anonymous firms will have to be used disguising the direct ties to the KPSS. Obviously the final goal will be to systematically create structures of an ‘invisible’ Party economy along with commercializing available Party property. Only a small group of people may be involved in this work.”*<sup>18</sup>

In November 1991, the All-Russian Stock Exchange Centre and the stock exchanges subordinated to it were headed by KGB officers. The Vice-President of the All-Russian Stock Exchange Centre, Mikhail Boldyrev, and its senior finance executive, Igor Chukhlantsev, were KGB senior officers. The president of the Secondary Raw Materials Exchange created under the supervision of the centre, Aleksandr Sumskey, was a KGB captain. In addition, the Centre held *“a controlling block of stock of the All-Russian Real Estate Exchange. According to the article, KGB officers make up 75% of staff members of the All-Russian Stock Exchange Centre.”* Apparently, the Centre created a network of institutions for channeling and laundering money for the KGB, the military-industrial complex and, quite probably, the Soviet Communist Party. Previously the Centre used to transfer large sums of money abroad, mostly to Budapest, where it has its office.<sup>19</sup>

The Soviets launched a third attempt to create a domestic business base as a tool to make the command economy function efficiently and to attract an increased amount of Western capital (and the resultant technology and influence in noncommunist capitals). After December 1991, the USSR was officially dissolved by the Communist Party bosses and it appeared that Russia would enter the community of nations. However, underneath the surface, the old communist bosses maintained the levers of control and had access to tremendous financial resources. The theoretical basis for this economic reorganization was arguably provided by Boris Yeltsin himself. In June 1990, Yeltsin noted that **“I think that the socialist nature, or the level and**

<sup>16</sup> Albats, Yevgenia. *The State Within a State* (Macmillan, 1999) page 247.

<sup>17</sup> Waller, J. Michael. “The KGB and Its ‘Successors’” Perspective Volume IV, Number 4 (April-May 1994) Accessed From: <http://www.bu.edu/iscip/vol4/Waller.html>

<sup>18</sup> Littell, Jonathan. *The Security Organs of the Russian Federation A Brief History 1991-2005* Accessed From: <http://psan.hypotheses.org/psan-publishing-house/j-littell-the-security-organs-of-the-russian-federation-a-brief-history-1991-2005-full-text-without-graphs>

<sup>19</sup> “KGB officers running Russian stock exchanges” *TASS* November 16, 1991



**share of a society's socialist nature does not depend on the number of times the word 'socialism' is pronounced...the absence of the word 'socialism' in my speech does not in any way show that I altogether reject this idea. We simply have to give it a different sense. That's the crux of the matter - a different sense, a different model. It will not depend on the name.**"<sup>20</sup>

The question that should be posed was: could an established communist like Boris Yeltsin in his advanced age easily change his position from one of socialism/communism to that of capitalism in a period of about two years? What is the difference between the "reformist" Russian "capitalist" economy and that of the Soviet economy under Gorbachev? Didn't the state play a large role in both periods? Was there a complete break from the past of dictatorial economic statism?

Former KGB/SVR officer Konstantin Preobrazhenskiy noted that "...As far as I know, the oligarchs were mostly reliable KGB agents to whom the KGB gave Communist Party money in order to turn them into KGB milk cows." For example, Preobrazhensky also noted that "Another famous Russian oligarch, Roman Abramovich, is a KGB agent too. The late Alexander Litvinenko told me about this...He told me that the KGB had recruited Abramovich as a soldier during his conscript service in the Soviet Army. The KGB was backing them all: Berezovsky, Gusinsky, Abramovich, like all the other Russian oligarchs. That is why it's so hard to guess the reason for Berezovsky's death. In fact, being a KGB collaborator does not give you any life guarantees! Mostly it's the other way around: if you are a KGB collaborator, it is very easy for you to die."<sup>21</sup>

The CPSU International Department defector Evgeny Novikov noted in a research paper that the roots of the Red Plutocracy commenced under Gorbachev: "The alliance of the Communist Party elite and the grey economy was reliable and profitable for both sides. Due to these arrangements, the grey economy flourished and the Party elite accumulated considerable wealth, which they were obliged to keep figuratively under mattresses." The transition from Communism to the so-called democracy of Yeltsin was an effort to preserve the CPSU's financial/economic power base. The CPSU elite immediately went into survival mode, repositioning their ideology away from official Marxist ideology: "The only exit for the Party Elite from this deadlock was to break its 'chains' and to abandon both the CPSU structure and Marxist-Leninist ideology. Perestroika, or the reconstruction of the Soviet system, was designed by the ruling political class as a program to get rid of the Communist ideology and the Soviet political and economic system. This system had become an obstacle preventing the Party elite from converting their political power into material wealth. The Soviet nomenklatura was also unhappy with the existing Soviet laws that limited their ability to use state property for their private purposes. The Soviet military élites were more than willing to have direct control over arms sales and to profit from this trade."

Novikov noted that "The Party Elite's agenda of perestroika went through the three stages: 1. The elimination of the Communist Party and Marxist-Leninist ideology. It split the Soviet Union into independent states to be headed by members of the political class. This task was entrusted to Mr. Gorbachev. 2. It ordered and benefited from confusion in the post-Soviet society that would enable the political class to privatize Soviet state property. This goal was

<sup>20</sup> "Yeltsin's Press Conference" Soviet Television June 2, 1990

<sup>21</sup> Nyquist, J.R. "Russian Capitalism and the Death of Boris Berezovsky" Financial Sense March 25, 2013 Accessed From: <http://www.financialsense.com/contributors/jr-nyquist/russian-capitalism-death-boris-berezovsky>

*achieved under the leadership of Boris Yeltsin. 3. The restoration of a strong state apparatus that could protect the property of the reconstituted political class. Vladimir Putin fulfilled this task, and thus the time for a new scenario had arrived. The Party elites from the Russian, Ukrainian, Byelorussian, Kazakh, and other 'union republics' that constituted the Soviet Union, initiated the idea of perestroika. The regional Party élites were the inner core of the Soviet political class. They were the real decision makers within the Party. They had voting rights during the meetings of the Central Committee of CPSU major decision-making body in the USSR."*

*Novikov noted that "Mr. Gorbachev...facilitated the smuggling of Party assets abroad, and brought the CPSU to a pre-calculated collapse. Gorbachev's mission was accomplished by end of 1991. The regional partocrats, like snakes that change their skins, abandoned their Communist Party positions and resurfaced as the presidents of independent republics, speakers of the dumas, provincial governors, mayors of cities and towns, ministers and judges of the new republics and most important as owners of the larger private companies, most of which had monopoly status in their fields of endeavor. The time had come for this renewed political class to institutionally establish its private ownership over former Soviet state property. In the Russian Federal Republic, the political class had chosen Mr. Boris Yeltsin to create the conditions for accomplishing this goal."*

*From 1991 to 2001, Novikov noted that "political class replaced the Soviet State as the owners of the 'peoples' properties.' The renewed Russian political class and its servants invented many different methods of 'privatization,' and Boris Yeltsin's government authorized these methods. The process was managed and supervised by the former Party bosses. The former Party elite first appropriated all CPSU property (buildings, publishing houses, newspapers, spas, hotels, transportation, etc.). They seized everything that they could obtain and manage from the property of the Soviet state. FSB officers (formerly KGB) continued to protect the interests of the renewed political elite...They authorized certain trusted leaders of the Young Communist League (Komsomol) to establish private banks (e.g. Menatep), oil companies (like YUKOS), broadcasting companies, steel companies and other enterprises, under conditions that the lion's share of these companies' profits would go to the former partocrats." Novikov also commented that "The revival of State police and security agencies was intended to protect the owners of these reallocated properties. It was also intended to encourage the obedience of new private owners from the former ranks of the nomenklatura and military elite to the leaders of the renewed political class. The task of creating such a state apparatus was entrusted to Lieutenant Colonel Vladimir Putin." It appeared that the actions of the regime of Vladimir Putin moved Russia in the direction of a populist, authoritarian nationalism. The Secretary of the Presidium of the General Council of the United Russia Party, Mr. Vyacheslav Volodin, praises Mr. Putin's actions. He tells us that, "the prices for oil were high even at the end of the 90s, but only under President Vladimir Putin has the state decided to take super incomes from oligarchs and monopolists...Those who today criticize us most were against withdrawal of out of control oil money from oligarchs to fill up the budget and to enable us to start national projects." Novikov noted that "Russia's top bosses are going to use budget money to cosponsor their new investment projects. These will be in the production of electricity, petroleum refineries, automobiles, computers, houses, furniture, drugs and alcohols, as well as services, including as*



*sea and land transportation, tourism, and insurance.*"<sup>22</sup> Thus, the Russian Communist reinvented themselves as believers and practitioners of state capitalism. The Russian Union of Industrialists and Entrepreneurs, the gathering of *nomenklatura* chiefs of the largest state-owned industries, issued a report in May 1992 endorsing capitalism but arguing that mass layoffs, aggressive price cutting and shutting down bankrupt firms were "*unethical*" actions. Union President Arkadi Volski urged President Yeltsin enact price controls on oil and provide cheap credits to the heavy industries. In June 1992, Yeltsin appointed three senior Union of Industrialists members into his Cabinet, who were all *nomenklatura* members who favored continued state controls. It was noted that "*The nomenklatura is moving back into politics, not under a communist banner but now under the banner of humane capitalism.*"<sup>23</sup>

In early 1991, a massive group of Soviet millionaires was created instantly through CPSU funding of 400 million rubles. A 2001 Moscow News article noted that "*As a result, M. N. Khotimsky, an ex-chief production engineer at Kauchuk research and production association and a friend of Veselovsky's, came to head up four firms: a small enterprise, Galaktik; Jobrus limited liability company; Holding Ltd., and the Moscow Municipal Association, while his wife, M. A. Khotimskaya, became the founder of Galaktik. The most interesting part, however, is that the general director of the largest firm in the family was KGB Colonel Grebenshchikov. Despite a formal discharge from the agency, he continued to carry a gun and a valid service ID. Ten years later, we checked the Moscow data bank of legal entities. All of these people are thriving. Presumably, Khotimsky has managed Party funds most effectively.*" During the later Soviet era, the Property Management Administration managed to set up more than 100 CPSU controlled firms and commercial banks, providing them with 3 billion rubles (\$2.5 billion) in start-up capital. In 1989, Vladimir Gusinsky became President of MOST Bank, which instantly became Russia's top 10 banks. In 1992, Gusinsky employed Filipp Bobkov, the ex-deputy chairman of the KGB in the MOST Bank. Vladimir Potanin was the chief engineer at the All-Union Foreign Trade Association (Soyuzpromexport) and in 1990 founded the Foreign Economic Association (Interros) where all the main assets of the Soviet Bank for Foreign Economic Activity (Vneshekonombank) were eventually transferred. In 1986 Mikhail Khodorkovsky organized an intersectoral center of science and technology programs, Me-Na-Te-P under the control of the Komsomol (Young Communist League). The center originally traded in computers and in 1988 registered as a cooperative bank. In early 1990, on express orders from the chief of the Property Management Administration of the CPSU Central Committee, Khodorkovsky enterprises were used in a CPSU money conversion scheme. Kommersant Daily noted in 1997 that "...Gennady Zyuganov's 1996 election campaign was bankrolled by MOST-bank, MENATEP, SBS-Agro, Uneximbank, and even Boris Berezovsky-controlled structures. Banks do not publicize such deals, of course, but what makes New Russian capitalists finance the CPRF?" Ex-CPSU International Department Chief Valentin Falin took a benign view of communist created capitalists in Russia "*As far as connections with oligarchs are concerned, I could remind you that the Bolsheviks used to get millions in subsidies from industrialists, bankers, and aristocrats... Count Obolensky donated 1 million rubles; banker Rybakov, several million;*

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<sup>22</sup> Novikov, Evgueni. "Putin's Political Strategy and the Rise of Sergei Naryshkin" Occasional Paper Jamestown Foundation August 2007 Accessed From:

[http://www.jamestown.org/uploads/media/Jamestown-NovikovNaryshkin\\_02.pdf](http://www.jamestown.org/uploads/media/Jamestown-NovikovNaryshkin_02.pdf)

<sup>23</sup> Tamayo, Juan O. "Ex-Communists Reap 'Red Gold' From Capitalism" Miami Herald June 30, 1992 page A1.

*Morozov bequeathed 100,000 having contributed generously in his lifetime. Today many realize that without building a socially balanced society Russia will hardly extricate itself from this predicament.*” Grigory Luchansky supported cooperation between businessmen and CPRF leaders. Moscow News reported that *“In particular, he (Luchansky) recalled a telling story of how Zyuganov's right-hand man, Valentin Kuptsov, lobbied Gazprom in favor of Perm-based businessman Dmitry Rybolovlev: ‘To all appearances, lobbying is done on a commercial basis. Why else would they do it? There is no ideology here. Because when CPRF faction leaders uphold the interests of Rybolovlev, a businessman with a not quite unblemished reputation, I am sure that Rybolovlev does not stand on a Communist platform. I only see commercial interests here. Nothing else.’”* A number of big Russian businessmen were elected to the Duma as communists such as Igor Annensky, President of Alba-Alyans Bank; Sergei Zolotilin, President of the Progress and Renovation Foundation; Rifkat Shakirov, President of the VNIIST Oil and Gas Company; Yevgeny Marchenko, Deputy General Director of the Presnensky Business Center; Nikolai Daikhes, a businessman, and many others. Viktor Vidmanov was concurrently President of the Rosagropromstroi Corporation and Rosagropromstroi-Bank and the Communist Party's official sponsor and member of the CPRF Central Committee Presidium.<sup>24</sup>

Even elements of the Russian economic oligarchy clung to communist ideology. Vladimir Semago was an example of a post-1991 capitalist in Russia who openly clung to Marxist beliefs. He is quoted as stating *“I would adhere to the ideas of Marxist-Leninist theory and faith in the communist future. These are ideas that will be realized. But it would be a great mistake to say they'll be carried out tomorrow.”* He sits on the board of a major Moscow bank, runs a business exporting solar panels to Greece and entertains his well-heeled clientele at the Moscow Commercial Club.<sup>25</sup>

The Russian Union of Industrialists and Entrepreneurs, the gathering of *nomenklatura* chiefs of the largest state-owned industries, issued a report in May 1992 that endorsed capitalism but arguing that mass layoffs, aggressive price cutting and shutting down bankrupt firms were *“unethical”* actions. Union President Arkadi Volski urged President Yeltsin enact price controls on oil and provide cheap credits to the heavy industries. In June 1992, Yeltsin appointed three senior Union of Industrialists members into his Cabinet, who were all *nomenklatura* members who favored continued state controls. It was noted that *“The nomenklatura is moving back into politics, not under a communist banner but now under the banner of humane capitalism.”*<sup>26</sup>

The Chinese Communist Party (CCP) under Mao Tse-tung's leadership also sought to utilize domestic businessmen to produce goods for the Red Army war effort against the Nationalists and to import vital goods from greedy or sympathetic businessmen and officials from Nationalist-held zones. In early 1932, the CCP mined tungsten in their liberated zones (called the Chinese Soviet Republic), which was then exported to the Cantonese warlords who were anti-communist, anti-Chiang Kai-shek, and greedy. Communist trade with Canton boomed

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<sup>24</sup> Sergei Sokolov and Sergei Pluzhnikov. “Why ‘New Russian’ capitalists bankroll Communists” Moscow News May 16, 2001

<sup>25</sup> Hockstader, Lee. “Communist Funds the Good Life and the Party” Washington Post May 20, 1996 page A17.

<sup>26</sup> Tamayo, Juan O. “Ex-Communists Reap ‘Red Gold’ From Capitalism” Miami Herald June 30, 1992 page A1.

despite the Nationalist government's blockade. Salt, arms, cotton, and medicine from the Nationalist zones were bartered for tungsten from the CCP-held areas.<sup>27</sup>

Domestic Chinese and foreign capitalists in the Chinese Soviet Republic were allowed to operate as long as they submitted to worker control and were loyal to the Chinese Soviet Republic. It supported the development of the local industrial base and factories that served the Red Army. The First Congress declared that *"In order to guarantee the Red Army's supply of all requisite weapons and munitions the necessary enterprises for the manufacture of munitions as well as arsenals and centralized departments shall be created."*<sup>28</sup> Trade with the non-Soviet, Nationalist (KMT)-held areas of China was under the control of the government of Mao's Chinese Soviet Republic. Edgar Snow reported that *"...all 'foreign' imports had to be paid for in 'foreign' exchange between the Soviet Republic and the KMT zones."* *"Soviet exports"* to the Nationalist zones *"were chiefly raw materials and were all sold in a depressed market as smuggled goods."*<sup>29</sup> Mao ensured that the Nationalist blockade was broken. Exports of tungsten, paper, lumber, and rice were sent to the Nationalist zones. Goods such as oil, salt, and cloth were imported from the Nationalist zones to the Chinese Soviet Republic. The Chinese Soviet Republic also created trade corporations and an external trade bureau to engage in commerce with the Nationalist zones. Private and cooperative capital was to be conscripted by the Chinese Soviet Republic in carrying out such foreign trade activities. The Chinese Red Army captured wire, steel, rails, machine tools, and lathes and equipped their factories in the Red held zones with such captured equipment. Before the Nationalist blockades of the mid to late 1930s, the Chinese Soviet Republic bought lathes, planing, rolling, and stamping machines were bought second, third, or possibly tenth hand in the Nationalist zones and such machinery was made in Nationalist (KMT) China, United States, Germany, and Great Britain.<sup>30</sup>

The Soviets under Stalin also supported Mao's strategic decision to use domestic Chinese capitalists and traders to upgrade communist power and international prestige. Stalin and the CCP believed that the Chinese business class possessed valuable reserves of anti-imperialist, anti-American sentiment useful for the long-term consolidation of communist power. The Soviets and the CCP also believed that the Chinese business class could be harnessed as intermediaries in strengthening trade relations with the West. In April 1949, Stalin advised Chen Yun that *"Tell Chen Yun that we, the Russian communists, are in favor of the Chinese communists not pushing away the national bourgeoisie but drawing them to cooperation as a force capable of helping in the struggle against the imperialists. Therefore (we) advise to encourage the trading activities of the national bourgeoisie both inside of China and on the outside, let's say trade with Hong Kong and with other foreign capitalists. The Chinese communists must decide for themselves which goods to buy and which to sell."*<sup>31</sup>

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<sup>27</sup> Halliday, Jon and Chang, Jung. Mao: The Unknown Story (Knopf Doubleday Publishing Group 2011)

<sup>28</sup> Schran, Peter. Guerrilla Economy (SUNY Press 1976) pages 52-53.

<sup>29</sup> Ibid, page 169.

<sup>30</sup> Ibid, pages 140 and 57.

<sup>31</sup> "Cable, Stalin to Kovalev" April 26, 1949 Cold War International History Project Accessed From:

[http://legacy.wilsoncenter.org/va2/index.cfm?topic\\_id=1409&fuseaction=HOME.document&identifier=0E893780-0193-4AD8-8EB4966C1C7A264B&sort=Coverage&item=China](http://legacy.wilsoncenter.org/va2/index.cfm?topic_id=1409&fuseaction=HOME.document&identifier=0E893780-0193-4AD8-8EB4966C1C7A264B&sort=Coverage&item=China)

In July 1949, Stalin advised Mao that *“The point of view that considers cooperation between you and the Chinese national bourgeoisie as the way of drawing them into the government is correct...the Chinese national bourgeoisie is against the US and Jiang Jieshi, against the relations between the US and Jiang Jieshi. That the Chinese Communist Party is using this anti-American feeling in order to establish a comparatively long-term cooperative tie with the Chinese national bourgeoisie is a correct policy. It is necessary to get the Chinese national bourgeoisie to stand in the anti-imperialist camp...You have a really good magic weapon (fabao), which is that imperialism wants to do business (maimai) with you. The imperialist countries’ economic crisis has already begun. I think the powers could quickly decide to try and recognize you. You can first do good business with them and then discuss the recognition issue.”*<sup>32</sup>

Even before the complete conquest of China by the CCP, Mao and his top lieutenants sought to conscript Chinese capitalists in the Red Army-occupied zones to produce for the war effort. In return, Mao offered the capitalists the suppression and discipline of labor, along with special subsidies and concessions. In December 1947, Mao allowed “genuine national capitalists” to contribute to the “new democratic national economy.” Mao distinguished the “national capitalists” (*minzu zibenjia*) with that of “comprador bureaucratic capitalists” (*maiban guanliao zibenjia*) who served corrupt officials and foreign imperialists.<sup>33</sup> The Communist organizers of the North China Liberated Area Conference on Business and Industry (May and June 1948) informed Chinese businessmen that they would receive large state orders and tax breaks from the Reds. People’s Liberation Army soldiers were ordered not to confiscate the properties of foreign and Chinese businessmen.<sup>34</sup> In February 1949, Mao himself noted in a conversation with Soviet official Anastas Mikoyan: *“...Our policy with regard to private industrial enterprises must not repeat former mistakes, so as not to scare away the national bourgeoisie, therefore now we will not carry out the confiscation of private industrial capital and its enterprises...we must treat our bourgeoisie with more caution. We are not afraid of the capitalists and do not adjust to them...Ore mining enterprises should be given the opportunity to export their products, but under the condition that export will be in the hands of the state. Free competition is allowed on the market, but the state control over it is also not allowed to slip...Permitting that the capitalists have profits from their enterprises we at the same time must regulate the development of these enterprises in such a way that it benefits the state. One should develop those branches of the industry, which strengthen the country...We stand for the strengthening of the elements of state and cooperative economy. The state economy will be socialist in character but we are not shouting about this so as not to scare someone away. The state economy will be strengthened because the communists have the power and the army is in their hands. This is why the state economy will be leading in the economy of new China.”*<sup>35</sup>

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<sup>32</sup> “Cable, Liu Shaoqi to Mao Zedong” July 18, 1949 Cold War International History Project Accessed From:

[http://legacy.wilsoncenter.org/va2/index.cfm?topic\\_id=1409&fuseaction=HOME.document&identifier=222128AA-A6B9-1AC7-54BBE3B2132D0939&sort=Coverage&item=China](http://legacy.wilsoncenter.org/va2/index.cfm?topic_id=1409&fuseaction=HOME.document&identifier=222128AA-A6B9-1AC7-54BBE3B2132D0939&sort=Coverage&item=China)

<sup>33</sup> Pickowicz, Paul. *Dilemmas of Victory* (Harvard University Press, 2007) pages 359-360.

<sup>34</sup> Tucker, Nancy Bernkopf. *Patterns in the Dust* (Columbia University Press, 1983) pages 118-120,

<sup>35</sup> “Memorandum of Conversation between Anastas Mikoyan and Mao Zedong” February 6, 1949 Cold War International History Project Accessed From:

Liu Shao-chi reportedly addressed Chinese businessmen and stated *“As Communists we consider that you are exploiting your workers; but we realize that, at the present stage of China’s economic development, such exploitation is unavoidable and even socially useful. What we want is for you to go ahead and develop production as fast as possible and we will do what we can to help you. You may be afraid of what will happen to you and your families when we develop from New Democracy to Socialism. But you need not really be afraid. If you do a really good job in developing your business, and train your children to be first-class technical experts, you will be the obvious people to put in charge of the nationalized enterprises and you may find that you earn more as managers of a socialized enterprise than as owners.”*<sup>36</sup>

On August 19, 1949, the Shanghai Military Commission decreed the Provisional Procedure for the Mediating and Settlement of Labour-Capital Disputes in Private Enterprises, which called for the *“mediating and settling of labour-capital disputes in order to attain the goal of benefiting both labour and capital and developing production.”* The workers were ordered by the Communist Party to *“...comply with factory administrative regulations and with the work orders of the capitalists. The capitalists alone have the right to hire and fire workers and employees.”* The workers were forced by the Party to ask *“voluntarily”* for cuts in their wages and for a lengthening of the working day.<sup>37</sup>

After the CCP/Red Army conquered all of Mainland China, the conciliatory strategy directed at elements of Chinese big business continued. The Chinese industrialist Liu Hongsheng noted in December 1949 to the Shanghai People’s Congress that *“the liberation of Shanghai has opened up a free, glorious new world for industrialists creating a new environment in which to shake off our chains”* and that industry and commerce were previously *“heavily oppressed by imperialism, feudalism, and bureaucratic capitalism.”* Liu noted that *“we must eat bitterness at first so that we can enjoy happiness later.”*<sup>38</sup>

Chen Yun, the Chairman of the Economic-Financial Committee of the State Administrative Council and Minister of Heavy Industry, noted in June 1950 that *“In industrially backward China it would be progressive and beneficial to the country and to the people for the national capitalists to develop industry and invest in it for a long time to come...The state allows private capital to conduct commercial activities in order to develop the circulation of commodities. This is beneficial to both the state and the people. The People’s Government protects the interests of all capitalists who benefit the nation’s welfare and the people’s livelihood. Of all components of the social economy, the state economy is the leading force.”* One CCP theoretician noted *“On the strategic level, Lenin’s NEP was a temporary retreat resulting from previous miscalculations and errors, whereas Mao’s New Democracy represents a wide, carefully-prepared flanking and infiltration movement to capture capitalist forces and use them for their own overthrow.”*<sup>39</sup>

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<sup>36</sup> Kautsky, John H. “What Neo-Maoism Shows” *The New Leader* December 16, 1957 pages 12-14.

<sup>37</sup> Gluckstein, Ygael. *Mao’s China Economic and Political Survey* (George Allen and Unwin Ltd London 1957) pages 195-199.

<sup>38</sup> Pickowicz, Paul. *Dilemmas of Victory* (Harvard University Press, 2007) page 371.

<sup>39</sup> North, Robert C. “The NEP and the New Democracy” *Pacific Affairs* Volume 24, Number 1 March 1951 pages 53 and 56-57.



Well into the 1950s, Soviet writers and observers supported Mao's strategic pragmatism aimed at the Chinese business community. Soviet correspondent Borovik noted in December 1956 that *"The people's state (in China) has an economic stake in supporting the national bourgeoisie. We will use private capital to reconstruct the economy, develop production, train technical specialists, to avoid unemployment, to expand the turnover of goods, and for many, many other purposes."*<sup>40</sup>

The verbal and written assertions of the CCP were backed up by actions. The Chinese made use of private enterprises in the early and mid-1950s to jumpstart the economy. Four hundred and thirty private companies served as purchasing agents for Chinese state owned firms, while 480 private businesses served as selling agents *"in the marketing of special commodities on behalf of the state."* In 1953, private businessmen of the All-China Federation of Industry and Commerce were told *"their mission during the transitional phase of state capitalism was the continued acceptance of socialist reform."*<sup>41</sup> In 1951, the Chinese Communists ordered private companies to form syndicates in partnerships with joint enterprises.<sup>42</sup> In 1952, private businessmen and merchants were subjected to an *"ideological remoulding"* campaign consisting of the *"Four Antis Movement."* They are: *"anti-tax evasion, anti-profiteering, anti-fraud, and anti-bribery."* These businessmen were warned by the communists to change their ways if they hoped to *"save their factories or stores and themselves."*<sup>43</sup>

In 1952, the Chinese government formed the All-China Federation of Industry and Commerce to organize the *"national bourgeoisie"* under state control. This was implemented in the midst of a campaign of *"ideological remolding"* of private industrialists and merchants in the study of Marxism-Leninism and Mao Tse-tung Thought.<sup>44</sup>

A former pro-CCP businessman named Robert Loh recalled: *"The main reason for the drastic change in policy (towards Chinese big business) was not difficult to understand. The excesses of the Five-Anti Campaign had left businessmen so terrified that they would do nothing for fear of making a mistake. Commerce and industry, therefore, were nearly paralyzed, and production was dangerously low. The regime did not have its own trained personnel who could take over the running of private concerns. Thus, the capitalists were still needed, and the authorities tried to restore confidence within the business community. The businessmen were called to attend public meetings at which they were addressed reassuringly by high officials. They were praised for their past contributions, and encouraged to make future effort. The tax burden, for example, was eased; the authorities did not go so far as to reduce the tax rates, but property evaluations were 'reconsidered' so that the tax amounts were less. Even more important, the fines imposed during Five-Anti were 'rechecked' and most of them drastically. The fines of J. P. Chan's enterprises were cut in half, and we were given 20 years in which to*

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<sup>40</sup> Kautsky, John H. "What Neo-Maoism Shows" The New Leader December 16, 1957 pages 12-14.

<sup>41</sup> Lieberman, Henry R. "Peiping Expands State Capitalism" New York Times March 14, 1954 page 3.

<sup>42</sup> Lieberman, Henry R. "China Reds Merge Private Concerns" New York Times February 12, 1951 page 4.

<sup>43</sup> Lieberman, Henry B. "Communist Revolution is Speeded Up in China" February 3, 1952 New York Times page E4.

<sup>44</sup> Lieberman, Henry B. "Peiping to Set Up a Business Union" New York Times February 1, 1952 page 2.



*pay them. Firms near bankruptcy because of the fines were offered government low-interest loans. Merchants were helped by new regulations which restricted sales in some State-operated stores so that business was diverted back to private owners. Industrialists were told that their future was bright because the now-scheduled Five-Year Plan would mean such heavy government buying that immediate production increases were necessary. A requirement for increased production was the reestablishment of discipline among the workers.*"<sup>45</sup>

In other cases, selected Chinese businessmen were retained by the ruling CCP as a tool to convince Western leaders and capitalists that Mao's regime was really more moderate than anti-communists believed. Hence, Western businessmen and politicians would be more willing to conclude trade deals with a "moderate" China as opposed to one that is committed to "radical" communism. Journalist Valentin Chu noted *"In industrial and commercial centers like Shanghai, a number of former prominent capitalists are domesticated in luxurious mansions with well-trimmed gardens, cluttered with refrigerators, pianos, Chinese curios and staffed with coteries of baby amahs, cooks and maid servants. These ex-capitalists tell the visitors of their joy at being robbed of their factories, and of their improved living conditions under a system that is supposedly antagonistic to capitalism. Two French industrialists, after listening to such a skit, gushed that if the French Communists should adopt a similar policy, they would have nothing against French Communism. French savoir faire, it seems, is no match for political chinoiserie."*<sup>46</sup>

Despite the continuation of mass persecutions, imprisonments, and executions during the late 1950s and 1960s, the CCP continued to retain select ex-capitalists for the following reasons:

- 1) As fronts/intermediaries in trade with the West.
- 2) To convince Western progressives that the CCP was still committed to reconciliation as opposed to mass purges of class enemies.
- 3) The expertise of ex-businessmen were also harnessed for the management of state-owned enterprises.

Even as late as 1966, industrialists in China were paid 5% of the value of their properties. In Shanghai about 90,000 families of former capitalists were collecting dividends from the state for properties nationalized by the communists. The wealthiest of the Shanghai capitalists was textile magnate Yang Yi-jen, who was collecting 2.4 million *yuan* per year. Yang was also Deputy Mayor of Shanghai and vice-minister for the textile industry. Yang possesses several radios, lives in a big house attended by two servants, and owns two chauffeured automobiles. His hobbies are traveling and photography. Another wealthy Shanghai capitalist was Wu Tsong-I, who received 80,000 *yuan*, plus 380 per month for serving as an associate manager of a textile mill he once owned. Wu owned a 1960 model Jaguar, lived in a three story mansion, and was a member of the National People's Congress. He spent large amounts on antiques and paintings. All of these ex-capitalists lived in large houses, possessed televisions, slept on foam mattresses, and listened to records imported from Hong Kong. They utilized the movie houses, tailors, barber shops, and confectionaries on a regular basis. Stores called *"The World"* and *"Blue Sky"*

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<sup>45</sup> Loh, Robert. Escape From Red China (Coward-McCann, Inc. New York 1962) pages 105-108.

<sup>46</sup> Chu, Valentin. Fight Fight Talk Talk: The Inside Story of Communist China (Norton, 1963) pages 257-258.

sold these wealthy capitalists fancy shoes and pants, while luxury restaurants were patronized by these individuals.<sup>47</sup>

As late as 1971, another report described a former capitalist, a Mr. Hsu, as owning a new model Rolls Royce, living in a two story mansion attended by maids and butlers. The mansion was reportedly stocked with foreign liquors and Mr. Hsu attended clubs for entertainment. He was reportedly a manager of one of the factories that he owned since the 1930s. These former capitalists still received their old salaries from pre-revolutionary times and an additional 5% dividend from their properties that were nationalized by Mao. These former capitalists are also allowed to keep any foreign currency profits accrued from overseas assets and investments. Mr. Hsu, for example, makes money from part ownership of a firm in Singapore, which allows him to purchase luxury items. Most of these ex-capitalists were given the title of general manager in these joint private state enterprises.<sup>48</sup>

Even the vaunted capitalistic “*reforms*” under Deng Xiaoping proved to be nothing but state-controlled crony capitalism on the model of the Nazis and Fascists. The CCP under Deng’s leadership sought to revitalize communism through the enactment of market mechanisms into the system of state ownership. Furthermore, a new class of Chinese “*businessmen*” would be created. In reality, these domestic Chinese “*businessmen*” were creatures of the Party and often were the family members of the ruling elite.

During the 1980s and the decades afterword, the Chinese Communists insisted that their economy was run on communist principles. Vice Premier Wan Li noted that “*To develop the commodity economy, people should attach importance to profits. Make profits and seek profits by all legal means.*”<sup>49</sup> One Chinese financial official noted that his nation’s economy “*is still a collective economy.*” Former Foreign Minister Huang Hua claimed that “*People who think China today is becoming free market and betraying socialist goals are wrong.*”<sup>50</sup> The reference book China: A Country Study noted that in 1985, state-owned enterprises produced 70% “*of national industrial output by value, held 75 percent of fixed industrial assets, and employed 46 percent of the industrial labor force (including rural industrial enterprises).*”<sup>51</sup> Chen Bing-quan of the All-China Federation of Trade Unions noted, in reference to Chinese laborers employed in Western joint ventures factories that “*Part of the surplus value produced by the Chinese workers does go to capitalists in the form of profits. But these workers are protected by Chinese law from arbitrary treatment by their employers, and they know they are doing their job mainly for the sake of China's socialist modernization. They are not like the wage laborers in capitalist enterprises in other countries.*”<sup>52</sup>

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<sup>47</sup> Karnow, Stanley. “China: Luxury for Capitalists” St. Petersburg Times September 13, 1966 page 8A.

<sup>48</sup> Feigon, Lee. “The Capitalists in Mao’s China” Anchorage Daily News September 19, 1971 page 5.

<sup>49</sup> Stief, William. “The Long March to Development” Multinational Monitor March 1987 Accessed From: <http://www.multinationalmonitor.org/hyper/issues/1987/03/steif.html>

<sup>50</sup> Hamilton, John Maxwell. “U.S. shouldn’t bet ranch on Deng’s present path” The San Diego Union-Tribune December 1, 1985 page C6.

<sup>51</sup> China: A Country Study (Federal Research Division Library of Congress 1987) Accessed From: <http://lcweb2.loc.gov/frd/cs/cntoc.html>

<sup>52</sup> Stief, William. “The Long March to Development” Multinational Monitor March 1987 Accessed From: <http://www.multinationalmonitor.org/hyper/issues/1987/03/steif.html>

The Chinese Communist Party also exerted political controls over the new “capitalists” in Red China. In 2001, Jiang Zemin welcomed private businessmen into the Communist Party of China and as a result, 10% became party members.<sup>53</sup> In May 2000, Jiang Zemin announced that the Communist Party of China would increase its control over businesses by installing party “cells” within each enterprises. These commissars were directed “to work hard to unite and educate entrepreneurs to advocate various policies of the party, run businesses according to law, and protect the employees’ interests.”<sup>54</sup>

Even some of these Chinese “businessmen” and supporters of free trade with Beijing argued that Deng’s “reforms” did not reflect a transition to a free market economy. In 1990, an exiled Red Chinese businessman named Wan Runnan initially profited from the limited “reforms” of Deng. He noted that “In China, the means of production are mostly state-owned. For example, in the countryside you have something called the self-contract responsibility system, in which land is owned by the state but individual farmers are responsible for how the land is used. They fill state quotas, but the farmers can choose what to grow and can keep what profits are made from the surplus. The problem, though, is that the land is still state-owned. As long as private ownership is not established in China, it will be very hard to stimulate the economy and expand upon this initial development.” Runnan noted “Of course I’m for continued economic sanctions because any difficulty that can be created for the current regime is a favor to China’s democratic movement.”<sup>55</sup>

Even the libertarian periodical The Freeman had no illusions about the “reforms” in China under Deng. The Freeman noted in 1987 that “Although decision-making has been decentralized from Beijing, it has been switched to provincial and local officials...in China Western businessmen must deal with a government bureaucracy slow to make decisions and at times uncertain in direction...the farmers, who operate under a so-called responsibility system allowing them to use the land for fifteen years, realize that this program can be reversed at any time...the bankruptcy law and the management-responsibility system have strengthened the control of the state...While China has reduced some of its harsh revolutionary rhetoric on the international scene, there is evidence that China, once it has acquired Western technology and expertise, may once again resort to a more militant foreign policy and use its technology, like the Soviet Union, to strengthen its control over its own people and other nations.”<sup>56</sup>

The Hungarian Communists took power in the wake of the defeat of the Central Powers in World War I. A weak liberal government of Count Karolyi was overthrown in 1919 and the communists under the leadership of Bela Kun took over and imposed a totalitarian state that was aligned with the nascent Soviet state in Russia. However, Bela Kun used the managerial expertise and experience to help manage the economy. It appeared that Kun’s actions were based on the Soviet attempt to conscript Russian capitalists to manufacture goods for the Bolshevik dictatorship of Lenin. In April 1919, the Bela Kun government nationalized all estates that had in excess of 140 hectares of land. Previous to this nationalization decree, the Hungarian

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<sup>53</sup> Ting, Shi. “Private firms almost double in three years” South China Morning Post February 4, 2005 page 5.

<sup>54</sup> Gertz, Bill. The China Threat (Regnery Publishing 2002) page 12.

<sup>55</sup> Pruzin, Daniel R. “Freeman Interview: Wan Runnan” The Freeman/Ideas on Liberty, May 1990

<sup>56</sup> Senese, Donald J. “China’s ‘Free Enterprise’ Experiment” The Freeman July 1987 pages 267-269.

Communists did not support the breakup of the large estates. Instead, the Communists believed that the big estates should be kept intact and farmed collectively by peasant laborers. The collectivization forced the peasants to work as slaves on the estates. The Bela Kun government appointed a Production Commissar to manage each estate. These Commissars were often the former estate owners or their stewards. P. Kenez noted that *“The regime needed experts to continue production, and the new managers have been the old landowners and bailiffs. The peasantry was bitterly disappointed.”* Z.L. Nagy noted that *“Commissars of production were appointed to head the agricultural cooperatives that were formed in this manner. Since the new state did not have the necessary number of skilled men, these experts were appointed overwhelmingly from among the former owners, or the stewards who had previously managed the large estates.”* H. Gurber noted that *“The nationalisation of large estates, which were converted into collectives generally managed by the local gentry and their agents, who were the most experienced administrators, automatically made many peasants enemies of the regime.”* Former communist dictator Matyas Rakosi recalled *“I was taken to the Under-Secretary of State...who immediately introduced himself as follows: ‘My name is Comrade Mehely. I knew that he had been secretary of the national Association of Industrialists, and I was surprised to find that he was a comrade too. But immediately after, All the Under-Secretaries of State and the Counsellors rushed to see me, and they all introduced themselves as ‘comrades.’”*<sup>57</sup>

Matyas Rakosi, in a report to the 2nd Congress of the Communist International in 1920, describes a picture similar to Varga: *“State secretaries, officers, bankers, large landlords and merchants besieged soviet executive committees with requests of work. The most painful decrees of the Soviet power were executed seemingly without a resistance...Such behavior of bourgeoisie contributed to seamless transfer of property and continuation of production...they (the bourgeoisie) remained mostly in charge of the factories and estates, as managers of one sort or another, conducted their sabotage wider and wider still, perverted their former employees, paralyzed their revolutionary energy with their presence.”*<sup>58</sup>

The East German SED also followed the model of the defeated National Socialists (Nazis) in harnessing elements of the old private business community. As of 1955, a number of Nazi-style, government-controlled private enterprises existed in East Germany. These “private” companies added to the aggregate national production, provided a valuable window for trade exchanges with the West, and helped increase international legitimacy for the SED in foreign business circles. By the early 1970s, a number of these “private” companies were nationalized by the East German government. Firms included in this category included: Dornsmann & Co. in Magdeburg (brass), Strohlein & Co. of Ilmanau (electro-chemical production), Carl Semper & Co. of Greiz (paper clip making machines), Urowerk Meyer & Co. of Dresden (machine tools), and Alfred Schutz of Jena (building materials). Many of these controlled private firms in East Germany exported goods abroad. The *GDR Journal of Economics* even hailed *“the export achievements of private enterprise.”* Firms were also permitted to retain hard currency, were

<sup>57</sup> “Hungarian Soviet Republic of 1919” Marxism Internet Archive Accessed From: <http://marxism.halkcephesi.net/Other/Compass/hungarian%20soviet.htm>

<sup>58</sup> “Hungarian Soviet Republic” Second International Part 3 Accessed From: [http://fractal-vortex.narod.ru/International/Second\\_International\\_Part\\_III\\_Eng.htm](http://fractal-vortex.narod.ru/International/Second_International_Part_III_Eng.htm)

given tax incentives, and praised by the regime. They were conscripted in the drive to increase exports, especially to West Germany.<sup>59</sup>

Heinz Janetski created a government-controlled private firm near Leipzig that produced medical centrifuges in 1945 and had in 1958 over 85 employees. The East Germans owned 80% of the firm and supplied loans to the firm. The East German state took 80% percent of the firm's profits. Despite these measures, the firm was successful. In 1972, Janetski had 330 workers in his private enterprise, sold products to 45 countries, and international sales totaled \$5 million. In 1972, the East German state nationalized the firm.<sup>60</sup>

Even as late as 1970, semi-private firms continued to exist in East Germany and contributed to the GNP and the nation's hard currency reserves. Herbert Schnabel owned a women's fashion firm called Lucie Kaiser KG, which was located near Leipzig. This semi-private firm received state orders and much of their product was exported to West Germany. The "*Made in GDR*" labels were removed and false French ones were placed. The prices of Lucie Kaiser's clothes were then doubled. Schnabel owned a Soviet-made Chaika luxury car and wore suits with gold cufflinks. Schnabel won a medal from the East German government for his accomplishments. Ernst Strohbach owned a metal works firm near Dresden. Although the state controlled this private firm, Strohbach proclaimed: "*Ich bin der Boss.*"<sup>61</sup>

Certain West German industrialists provided financial support to the USSR, the East German SED, and the West German Communist Party (DKP) in order to secure protection from the class-based reprisals of invading Soviet and East German invasion forces. Evidence of this existed as far back as the late 1940s. Two types of West German businessman existed in the Federal Republic since the late 1940s: the Inter-Zonal trader and the so-called *reinsurer* or *Ruckversicherer* who traded with the Soviet Zone (SBZ). The *Ruckversicherer*, as he was contemptuously known by West Germans, was a businessman who funded the communists and/or extreme nationalist organizations which maintained strong ties to the Soviets and East Germans. The *Ruckversicherer* financed pro-Moscow organizations as a means of ensuring exemption from arrest or execution in the event of a Soviet occupation of West Germany.<sup>62</sup>

This was confirmed by journalists and intelligence sources. The US High Commissioner for Bavaria George Shuster reported in 1951 that the "*Ruhr industrialists were taking out insurance with the Communist party and that the coffers of the Communist party were filled with their money.*"<sup>63</sup>

Habe noted that "*The Ruhr industrialists are neither dreamers nor particularly patriotic. At the moment their predominant aim is to earn as many dollars as fast as possible. But, more important, they prefer to work as our suppliers or employees rather than as our allies. In case of Russian occupation they would like to be able to point out that they have just done a 'job' without active political support of the West. There is hardly a day when Allied Intelligence*

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<sup>59</sup> "Communist Germany: It Uses Its Capitalists to Spark Export Sales in Western Markets" Wall Street Journal April 15, 1955 page 1.

<sup>60</sup> Hart, James A. and Schultze-Zeu, Dieter. US Business and Today's Germany (Greenwood Publishing Group 1995) page 38.

<sup>61</sup> "East Germany: Capitalists Among Communists" Time April 20, 1970 Accessed From: <http://www.time.com/time/magazine/article/0,9171,944060-1,00.html>

<sup>62</sup> Tauber, Kurt P. Beyond Eagle and Swastika (Wesleyan University Press, 1967)

<sup>63</sup> Pearson, Drew. "Germans Cutting Throats by Help to Red Nations" Charleston Gazette March 19, 1951 page 6.

*agencies do not find out that war material is being shipped from the Ruhr to the East, and at the Moscow Trade Conference in April 1952, German industry was represented by an impressive delegation, led by Ludwig Krumm, West Germany's No. 1 leather manufacturer who returned with an order for shoes amounting to eighteen million marks. This does not mean that the leaders of German industry and the masters of the Ruhr are pro-Communist or pro-Russian. It does mean, however, that they are perfectly aware of the Russian menace and that they prefer to maintain the greatest possible neutrality. To serve us as blacksmiths is good business, involving a minimum of risk. To furnish us in the name of Western solidarity does not mean more dollars but only increases the chances to be taken.*"<sup>64</sup>

In other words, the biggest West German capitalists paid protection money to the communists. The industrialists thought that such protection money would buy them their lives from the execution squads of the East Germans and their West German communist allies. This was a similar path that elements of German big business took when they helped fund the National Socialists in the 1920s and early 1930s. However, the protection money proved meaningless when the Nazis imposed severe controls over the private economy in Germany and even jailed and executed businessmen for various "*crimes.*" Without question, the Soviets and East Germans would have eliminated the West German big business elites once their economic usefulness was used up.

Fast forward to the 1970s and 1980s and the protection payments continued. Twenty-one foreign firms, such as Japan's Nissho Iwai Corporation and West Germany's Salamander shoes, donated a total of 631,450 marks in 1976 to the West German Communist Party (DKP). This was done at the request of the East German government. Fourteen of the firms that donated money to the DKP were from West Germany, while the remaining were Swiss, Danish, Dutch and American companies. The donated funds were intended for supporting the convention of the West German communist party and parliamentary elections in 1976.<sup>65</sup>

In the early years of the DPRK (North Korea), the communist leadership decided to engage in influence operations to secure trade with the capitalist world. Stalin apparently endorsed this idea. In March 1949, Stalin and Kim il-Sung held a meeting where topics such as foreign trade were discussed. Stalin inquired whether North Korea had trade relations with Japan, China, and the Philippines. Kim noted that North Korea had trade relations with China, despite the fact that it was in the throes of a civil war. Kim noted to Stalin that North Korea had "*not traded with other countries. They conduct trade with Hong Kong, but unofficially and on a case by case basis.*" Stalin then asked Kim whether the government organized "*trading societies*" within North Korea. Kim noted that North Korea created such a society and it conducted "*trade in the main with Hong Kong, with the city of Dairen and with China.*" Stalin commented to Kim that "*Stalin says that it is necessary to have such a society, there is nothing wrong with it. The national bourgeoisie exists; among the bourgeoisie there are, apparently, also good people, it is necessary to help them. Let them trade and deliver goods, there is nothing bad in this. I do not have questions.*"<sup>66</sup> Hence, the DPRK leadership sought to conscript elements of

<sup>64</sup> Habe, Hans. Our Love Affair with Germany (Putnam, 1953) page 148.

<sup>65</sup> "Foreign firms donated to West German communist party in 1976: report" Agence France Presse October 21, 1993

<sup>66</sup> "Meeting Between Stalin and Kim Il Sung" March 5, 1949 Cold War International History Project Woodrow Wilson Center Princeton University Accessed From: <http://digitalarchive.wilsoncenter.org/document/112127>



the domestic capitalist class into supporting the foreign trade program of the communist (Workers Party) elite.

In the earlier years of North Korean Stalinism, the Workers' Party and Kim il-sung allowed a controlled "*private*" sector to exist alongside the enormous state-owned economy. The communists sought to maintain a certain level of efficient "*private*" sector production in the North Korean economy and utilize the limited business community in its trade outreach and smuggling with Hong Kong, Japan, and South Korea. The North Korean industrial and retail "*private*" sector had a limited autonomy and was subject to state control of labor, raw materials, and taxation. The North Korean industrial and retail "*private*" sector had a limited autonomy and was subject to state control of labor, raw materials, and taxation. The Russian Commercial Bank operated in Pyongyang as a small "*private*" bank which financed Soviet joint stock companies and lent funds to North Korean "*private*" enterprises. Private farmers in North Korea were brought under the control of the government and his independence was threatened by collectivization. Retail and light manufacturing was also in "*private*" hands. "*Private*" manufacturers were taxed at a level of 55% (at most) and wages for the "*private*" sector was fixed by the state. The government also allocated raw materials to "*private*" companies. "*Private*" companies also smuggled imported raw materials from South Korea. Government inspectors and party cells were stationed in "*private*" businesses for surveillance purposes. The North Korean government issued decrees such as the Measures for Protecting Private Property and Encouraging Individual Initiative in Industrial and Commercial Activities and the Ordinance on the Development of Industries and Commerce in North Korea.<sup>67</sup> The government found the North Korean "*private*" sector useful in serving as smuggling channels with trade with South Korea. The trade was limited in size and was controlled by the North Korean government and alleviated specific shortages in the DPRK.<sup>68</sup>

In a mirror image of the early years of Maoist China, North Vietnam initially harnessed the private sector in the years following the defeat of the French. The Communists initially sought to utilize the efficiency of private enterprise to legitimize their power and to serve as international fronts in their trade relations with the West. The Communists also realized that elements of the native capitalist class could not be alienated from the "*nationalist*" coalition against the French. They were afraid that instant nationalization would provoke economic collapse, thus threatening Red rule in Hanoi. In 1955, private businesses in North Vietnam met at a congress of commerce and industry under the Minister of Commerce Phan An. The purpose of the congress was "*to explain the new orientation to the businessmen with a view to economic improvement of the country.*" The goals were to increase production for domestic necessities and export.<sup>69</sup> By the end of the mid-1950s, the state nationalized these "*private*" enterprises and violently collectivized the farmlands.

North Vietnam and its satellite Viet Cong forces also exploited "*capitalist*" techniques and elements of the South Vietnamese business community to assist in the communist war effort under the banner of "*national liberation*" and "*unity.*" Capitalist elements in South Vietnam were believed to have provided at least 90% of funding for Viet Cong operations in South Vietnam.

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<sup>67</sup> Department of State. North Korea: A Case Study in the Techniques of Takeover (GPO 1961) Accessed From: <http://catalog.hathitrust.org/Record/010088767>

<sup>68</sup> Department of State. North Korea: A Case Study in the Techniques of Takeover (GPO 1961) Accessed From: <http://catalog.hathitrust.org/Record/010088767>

<sup>69</sup> "Vietminh Directs Business" New York Times January 6, 1955 page 6.

Landowners, wealthy peasants, and industrial operators donated money to the VC through harassment and promises of future financial gains.<sup>70</sup> A Vietnamese communist study recorded that during the 1960s, *“cadres played the role of capitalist businessmen and plantation owners; they lived in villas, drove automobiles, and wore nice clothes, using their legal status to collect and supply tons of rice and bushels of dried fish to supply our base areas in South Vietnam. Truly, this was a multifaceted revolutionary struggle.”*<sup>71</sup>

Immediately after the fall of Saigon in April 1975, the North Vietnamese seemed to follow aspects of the China model of the late 1940s and early 1950s in its treatment of native businessmen. Some *“private”* businessmen were kept on to convince the world that the communists fulfilled their prior promises of *“national reconciliation.”* Hanoi also hoped that the retention of elements of the South Vietnamese *“private”* sector would add some efficiency to the economy and attract international capital and technology to the country. Rees noted that *“the Communists distinguish (the) ‘people’s capitalist venture’ from ‘comprador capitalism’ with its connotation of foreign capital, which is strictly eliminated... Continued existence of private concerns is purely an expedient, analogous, say, to Lenin’s New Economic Policy of the early 1920s in the USSR.”*<sup>72</sup> Vietnam also trotted out an occasional privileged model capitalist before foreign audiences. The Vietnamese embarked on such a strategy in the attempt to convince Western progressives that the Communists sought *“national reconciliation,”* not bloody class warfare. One US television reporter was told by an owner of a rug factory through an interpreter that he lived in a big house, had two cars, a TV set, and money in the bank.<sup>73</sup>

By the end of the late 1980s, communist wooing of the *“private”* sector in Vietnam received a new lease on life through the allegedly *“reformist”* *“Doi Moi”* program. In April 1989, the Industrialists Association of Ho Chi Minh City was created and consisted of *“well-known industrialists and business people there.”* The Association had a 35-member executive board which included prominent Vietnamese communist economists and industrialists like Nguyen Xuan Oanh, Ngo Cong Duc, Nguyen Thi Nu and Pham Sanh.<sup>74</sup> By the late 1990s and 2000s, the Vietnamese developed a new class of capitalist wholly dependent and controlled by the ruling Communist Party. One high level defector Bui Tin noted that *“Every day they become more like the Mafia, Red Capitalists who have emerged from the jungle in a way never before witnessed in our country’s history.”*<sup>75</sup>

These *“Red Capitalists”* immediately expanded their perks and privileges. The Vietnamese communists hosted the Song Be Golf Resort that was patronized by wealthy

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<sup>70</sup> Belair, Felix. *“‘Capitalist Elements’ Called Vietcong Fund Source”* New York Times February 19, 1969 page 16.

<sup>71</sup> Goscha, Christopher. *“The Maritime Nature of the Wars for Vietnam”* 4th Triennial Vietnam Symposium Texas Tech University Vietnam Center April 11-13, 2002 Accessed From: [http://www.vietnam.ttu.edu/events/2002\\_Symposium/2002Papers\\_files/goscha.htm](http://www.vietnam.ttu.edu/events/2002_Symposium/2002Papers_files/goscha.htm)

<sup>72</sup> Rees, David. *“The New Vietnam: Hanoi’s Revolutionary Strategy”* Special Report Institute for Conflict Studies November 1977 Accessed From: <http://www.virtual.vietnam.ttu.edu/cgi-bin/starfetch.exe?DrLBy3vebJrOCKJyGCIFLhxJFO0ZpwmA7LMO8oPo7mGdLb9nG0Q3tvYXWCBCQJ.k6SNT1afswNqtKkclCNJ@xhpNPRoCzI6e47hu97uG@IA/2322202001.pdf>

<sup>73</sup> Hollander, Paul. *Political Pilgrims* (Oxford University Press, 1981) page 397.

<sup>74</sup> *“Industrialists association founded in Ho Chi Minh City”* Vietnam News Agency April 17, 1989

<sup>75</sup> Lind, Michael. *Vietnam: The Necessary War* (Simon and Schuster, 2002) page 235.

businessmen who drove to this facility in Mercedes-Benzes and Infinitis. As of June 1994, the Resort had “a sprawling clubhouse with a fantasy-like jungle pool, Jacuzzi and bowling alley....A boutique-filled shopping center, convention complex and luxury condominiums” were also constructed. A top Vietnamese communist official and Resort member Trade Minister Le Van Triet patronized the Resort’s golf course. A handful of Vietnamese Communists and 350 foreign business executives were paid members of this Resort. The membership fees for this Resort cost \$25,000. From 1990 to 1994, the number of Vietnamese classified as wealthy increased by 240%.<sup>76</sup> In 1995, an official with the US-Vietnam Trade Council reported that the Vietnamese Communist Party (VCP) had collective assets of \$20 billion. This official also reported that Vietnam’s richest 100 individuals were all high-level officials of the VCP.<sup>77</sup>

“Private” enterprise in Nicaragua was forced to serve the interests of the Sandinista state. It appeared that elements of the Nicaraguan big business community cautiously collaborated with the Sandinistas as means of maintaining the survival of their firms and to guarantee some level of profit. The Sandinistas allowed a wide amount of “private” enterprises in Nicaragua as another strategy of maintaining some legitimacy in the West. The Sandinistas propounded to the West and to progressive Left communities that the Nicaraguans were building a mixed economy that possessed socialist and capitalist attributes. They flatly denied that Nicaragua utilized communist deception strategy to conscript private enterprise to build a Soviet and Cuban-style economy. An economics textbook for Nicaraguan university graduates noted that the Sandinista notion of the “mixed economy” meant: “*There is an enormous difference between a ‘mixed economy where the state is at the service of the capitalists and another ‘mixed economy’ where the state limits the extraction of surplus value that the bourgeoisie obtain and channels the gains toward the most needy sectors. In the first case we find the ‘neo-capitalist’ economies or more appropriately ‘state monopoly capitalism.’ In the second case we have our economic system.*” In the view of Agricultural Minister Wheelock, private entrepreneurs and managers “prepare the food” but are kept “hidden away in the kitchen.”<sup>78</sup> In practice, the Sandinista government controlled the private sector by regulating prices, wages, and monopolizing export trade. Agricultural produce were sold by private farms to the state, which redistributed the products to retailer via the state-owned Basic Foods Enterprise (ENABAS).<sup>79</sup>

Private entrepreneurs in Nicaragua used state-subsidized equipment and supplies to manufacture or process goods such as barbed wire or foodstuffs, which in turn were sold to the dollar market. Sometimes, government-controlled “private” Nicaraguan businessmen were used by the Sandinistas to engage in unfair trade practices against various nations. For example, in 1986, some Guatemalan businessmen lodged an unfair-trading complaint against exporters of Nicaraguan barbed wire, under the terms of the free-trade rules of the Central American Common Market. The Guatemalan businessmen charged that the wire-makers received Soviet steel for free.<sup>80</sup>

<sup>76</sup> McLaughlin, Ken. “New wealth in Vietnam resented by the masses; Golf resort symbolizes new prosperity” The Houston Chronicle June 26, 1994 page 26.

<sup>77</sup> Accessed From: <http://www.fva.org/1097/story3.htm>

<sup>78</sup> Miranda, Roger and Ratliff, William. The Civil War in Nicaragua (Transaction Publishers 1992) page 178.

<sup>79</sup> Whelan, James Robert and Jaeckle, Franklin A. The Soviet Assault on America’s Southern Flank (Regnery Gateway, 1988) page 136.

<sup>80</sup> Baker, Stephen. “Doing Business in Spite of...Everything” Business Week February 1, 1988 page 18D.

A Miami banker commented on the privately-owned Nicaraguan Pellas business empire and its relations with the Sandinistas: *"The Pellas are playing on both sides of the fence...They're doing business in Nicaragua, and they're doing business in Miami. Their main concern is doing business."* The Pellas car dealership sold most of its vehicles to government-owned corporations, private agricultural producers, and Sandinista officials. The Pellas sugar and rum factories exported and imported goods through government channels. Oppenheimer noted that *"Private sector sources say the Pellas' companies have survived largely intact because the Sandinista government is using them as a public relations example of its claim that private enterprise is alive and well in Nicaragua."* A top leader of the Nicaraguan Private Enterprise Council noted that *"The Sandinistas are using the Pellas as a symbol...The day the Pellas leave Nicaragua, it will mean that the Sandinistas have finally decided to said good-bye to the Western world."*<sup>81</sup>

Despite the hardline, Stalinist nature of Albanian communism, the Hoxha regime utilized elements of the old capitalist class in its foreign trade relations with the West. Crony "private" capitalists within Albania in the 1950s actually held government office. The leading capitalist in this arrangement was Peristeri Pilo, whose net worth was a few hundred thousand US dollars. He kept five and six figure bank accounts in the capitalist world and had large amounts of shares in Western industrial companies and municipal corporations. Pilo became a delegate of the state-controlled Albanian Trade Unions and visited Vienna and Paris, where he consummated business deals. Pilo was also commissioned by the Soviets to participate in international black market activities to raise money for communist espionage operations. Pilo was requested by the Soviets to acquire Greek drachmas by selling goods to Greece.<sup>82</sup>

In the years after the Romanian surrender to the Soviets (1944), the Moscow-supported Romanian Communists launched a *modus vivendi* with the Romanian fascists, pro-Axis elements, and big businessmen. They possessed the technical expertise needed for the consolidation of Soviet and Communist Party power in Romania. The coalition government with the Stalinist Romanian Communist Party and the pro-fascist, pro-Axis Vice-Premier Georges Tatarescu and his political allies were referred to as *"a queer coalition of the local Darlans and the parties of the Left"* by The Economist in late December 1944. The Prime Minister of the pro-communist postwar Romanian government was Petru Groza, who was a very wealthy owner of factories, large hotels, and banks. Groza noted in September 1945 that his government *"did not intend to apply either collectivization of land or nationalization of banks or industries"*. Radio Bucharest reported that Stalin advised Groza to *"keep a system of private enterprise and private property"*. Groza also stated in January 1947 that *"The government and the parliament will make every effort possible in order to realize a fruitful field of collaboration for foreign capital."* A New York Times correspondent based in Romania reported in March 1945 that *"Industrialists, businessmen and hankers will escape punishment as war criminals under a law being drawn up by Lucretiu Patrascanu, Minister of Justice and Communist member of the Government, it was learned today. Rumania could not afford to lose the services of merchants and industrialists, M.*

<sup>81</sup> Oppenheimer, Andres. "Nicaraguan Family Walks a Tightrope" Miami Herald June 14, 1987

<sup>82</sup> Radio Free Europe Research Eastern Europe Albania's Capitalist No. 1 Accessed From: <http://www.osaarchivum.org/greenfield/repository/osa:4fd4685b-5000-4551-b82a-eda061b96490>



*Patrascanu said. He expressed the opinion that the country would pursue a more liberal policy toward this class than the French have.*"<sup>83</sup>

The capitalists in Romania were told by the Secretary General of the Romanian Communist Party in 1945 and 1946 that their investments were safe and that the government would protect them. As a result of these promises, the industrialists invested great sums. However, the Soviets and their Romanian comrades retreated on their promises. The profits generated were henceforth decimated by taxes. In June 1948, the communist workers' paramilitary forces seized the factories and the puppet Parliament nationalized all domestic and foreign industries. Un-rationed goods were bought by the several thousands of Romanian communists and Soviet administrators and technicians of "*former German assets*" that were taken over. They patronized the two state-owned nightclubs and lived in the luxurious apartments and villas of the former capitalists.<sup>84</sup>

Despite the early purges of Afghan businessmen and landowners in the early years of the communist rule of the People's Democratic Party (PDPA), the rulers in Kabul allowed a measure of controlled "*private*" enterprise. Such a policy would allow the communists to maintain and even open valuable trade routes into the West and noncommunist Third World nations. The PDPA referred to the collaborationist businessmen as "*national capitalists*" and "*national traders*." In May 1979, President Taraki admitted that there would "*still be room in Afghanistan for national capitalists and foreign investors*."<sup>85</sup> Taraki's successor, Hafizullah Amin, stated in August 1979 that "*The DRA*<sup>86</sup> *not only encourages the national capitalists to launch economic initiatives against feudalism and imperialism, but it sincerely supports them and leaves no stone unturned in providing its powerful assistance in the revolutionary framework and it remains sincere to all its patriotic allies...*"<sup>87</sup> After the Soviet invasion of December 1979, the puppet regimes of Presidents Babrak Karmal and Mohammed Najibullah continued the policies of their predecessors towards the controlled "*private*" sector. Afghan communist President Najibullah proclaimed: "*The economic policy and the structure of our economy will not be based on socialist management but on the basis of a mixed economy with provision of vast possibilities for national entrepreneurs and foreign capital. The state guarantees the freedom of activities of private capital.*"<sup>88</sup>

Under the Karmal and Najibullah regimes, the Afghan "*private*" sector continued to serve as a window to trade relations with the West and the noncommunist developing world. Bakhtar reported in May 1987 that the government controlled "*private sector*" in Herat, Afghanistan "*established trade relations with the Soviet Union, the FRG, the Netherlands, Syria, Kuwait, Dubai, Iran, the United Arab Emirates, Japan, Korea, Hong Kong, France, Malaysia and other countries. The businessmen mainly export dried fruit, wool, offal, rugs, carpets and handicrafts,*

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<sup>83</sup> Cliff, Tony. "On the Class Nature of the People's Democracies" Written in 1950 Accessed From: <http://www.revolutionaryhistory.co.uk/eastern-europe-after-wwii/on-the-class-nature-of-the-peoples-democracies.html>

<sup>84</sup> Ring, Camil. "Reds Seen Choking Trade in Romania" New York Times March 2, 1949 page 12.

<sup>85</sup> "Taraki Gives Press Conference" AFP May 3, 1979

<sup>86</sup> Acronym for the communist-ruled Democratic Republic of Afghanistan.

<sup>87</sup> "Amin's Address to Banking Personnel" BBC Summary of World Broadcasts August 29, 1979

<sup>88</sup> Landay, Jonathan S. "Capitalism thrives in communist Afghanistan" United Press International December 7, 1987

*and import essential goods. Through the chambers of commerce and industries, over 12,700 tons of pistachio, alfalfa seeds, clover seeds, water melon seeds and walnuts and over 32 square meters of rugs have been exported to the USSR, the Netherlands, Syria, and the FRG.*"<sup>89</sup>

The politically-connected "*national traders*" and "*national capitalists*" prospered during the 1980s and early 1990s. One so called "*national trader*" who was also a senator in the puppet Afghan communist legislature Mohammad Rasool Barat noted in an interview held in 1988 that "*My father used to trade with the Soviet Union, and my son will continue the business...Our trade with the Soviet Union has a history of over 45 years...The coming and going of Soviet troops has not affected it.*" Barat profited from trade with the Soviets, which comprised 95% of his business. Barat earned profits of \$30 million yearly and owned a Mercedes Benz, a farmhouse complete with a swimming pool and nicely tended rose garden.<sup>90</sup>

During the civil war in Cambodia (1970-1975), the communist Khmer Rouge embarked on a dual policy of murdering the old elites while capitalizing on the greed and patriotism of the Cambodian merchants and traders. Some of the collaborationist merchants sought to profit through trade with the enemy, while others were sincere nationalists who cooperated with the Khmer Rouge in the effort to expel the Americans and the Lon Nol government. This was laid out in early Khmer Rouge programs. The May 1970 program of the Khmer Rouge sought to encourage "*the national bourgeoisie to run well and set up enterprises beneficial to the people in conformity with the laws concerning wage-earners.*"<sup>91</sup> In July 1973, the Nation Congress of the GRUNK/Khmer Rouge Communists included representatives of Patriotic Merchants. Traders played an important role in supporting the Khmer Rouge until mid-1973. Merchants rented out land confiscated from pro-Republican traitors to the Khmer Rouge. Traders also worked with the Khmer Rouge in smuggling operations during the civil war. The Khmer Rouge administration allowed traders to profit from trade with Republican zones after paying taxes. These merchants traded in rice, cloth, salt, fuel, and machinery resulting that the traders "*our state was their satellite.*" The Republican Government officially encouraged trade between the government and communist zones within Cambodia. Rubber trade was encouraged in exchange for fuel and other necessities and the rubber exports provided the Republicans with foreign currency.<sup>92</sup>

After seizing power in April 1975, the Khmer Rouge imposed radical policies on the model of Lenin's War Communism. All private property was nationalized and land was collectivized. However, with the growing international unpopularity of the Khmer Rouge communists, the rulers in Phnom Penh sought to embark on a policy of strategic retreat on the model of Deng Xiaoping in Red China and Lenin during the NEP period in the Soviet Union. By 1978, the Khmer Rouge initiated plans to reintroduce money and a mixed economy in 1979 in Democratic Kampuchea.<sup>93</sup>

After the Vietnamese invasion and occupation of Cambodia in January 1979, the new set of communist rulers (People's Republic of Kampuchea or PRK) sought to recreate the "*private*"

<sup>89</sup> "Heart's Private Sector Foreign Trade" Bakhtar May 6, 1987

<sup>90</sup> Rajiv Tiwari. "Afghanistan: Red Star Over the North" IPS-Inter Press Service May 21, 1988

<sup>91</sup> "Political programme of the National United Front of Kampuchea (NUFK) : (adopted unanimously by the Congress held in Peking on Sunday, May 3, 1970)" Accessed From: [http://archive.org/stream/PoliticalProgrammeOfTheNationalUnitedFrontOfKampucheanufkadoped/NUFK\\_djvu.txt](http://archive.org/stream/PoliticalProgrammeOfTheNationalUnitedFrontOfKampucheanufkadoped/NUFK_djvu.txt)

<sup>92</sup> Jackson, Karl D. Cambodia 1975-1978 (Princeton University Press, 2014)

<sup>93</sup> Chandler, David P. Brother Number One (Westview Press, 1999) page 153.



sector under Party control. This was a strategic decision that would provide Cambodians with an important safety valve for the distribution of goods in a more efficient manner. The existence of such a “private” sector would also open new sources of foreign trade and allow the new Vietnamese puppet regime of the Kampuchean People’s Revolutionary Party (KPRP) with the tools to influence noncommunist governments in the region. PRK Deputy Prime Minister and Defense Minister Tea Banh noted that *“We see that we should decide to extract benefits from any group of (Thai) businesspeople that has an influence on the (Thai) government, especially the Thai armed forces because they control the (resistance)...This serves to confront (the resistance) while also benefiting our people.”*<sup>94</sup>

The KPRP and its officials carefully distinguished between wealthy people in Kampuchea and capitalists in the NATO countries. Kampuchean businessmen were portrayed as progressive, while capitalists in the West were viewed as exploiters of the working classes. Kampuchean official Uk Bunchheuan stated to the Council of Ministers that *“Rich people in our country have better hearts than rich people in other countries. Rich people in Cambodia don’t have bad hearts like rich people in France or England. Rich people in Cambodia see poor people in need and are happy to distribute land to them or help them have equal wealth.”*<sup>95</sup>

KPRP officials also outlined the strategic reasons for the reconstruction of the “private” sector in the PRK. PRK Foreign Minister Hun Sen asked the Council of Ministers: *“Should we follow capitalism or socialism? We shouldn’t say because there are a lot of factors concerning the international (scene). That the resistance was not homogeneously capitalist but rather included the Khmer Rouge was also a concern. The biggest issue is, can we satisfy the far left and the far right who have joined together to fight us? We are using capitalist investment to develop the country, raise the standard of living of the people, and deprive the far right of a weapon.”*<sup>96</sup>

As of 1987, the PRK had about 6 government-sanctioned private markets that sold goods such as Nescafe instant coffee, Tang breakfast drink, Heineken beer, gold watches, stationery, children's toys, stereos, and pop music. One PRK official commented *“We don’t have a black market... We have a free market.”* One journalist called this economic arrangement in the PRK *“the Dale Carnegie path to socialism.”* This “private” economy created a new class in the PRK, which consisted of merchants, traders, and small businessmen. They rode Japanese-made Honda motorcycles imported from Thailand and dined at private restaurants in Phnom Penh, consuming imported beer and lobster. Prime Minister Hun Sen noted that *“The point that we should be afraid of is not that we have a free market economy...What we should fear is the poverty of the population...If we are giving the population the opportunity to exercise freedom in the economy, in business, construction, in small industry, that is not as dangerous as the fact that poverty still exists.”* One PRK/KPRP official commented that *“This is not an egalitarian society. We must accept that. The most important thing for the government is to improve the lot of the poorest people, not to bring down the rich.”* Prime Minister Hun Sen noted to a foreign journalist that *“You have seen our markets are filled with goods from Japan, Thailand and Singapore...Therefore the so-called economic blockade is not effective at all. That is why they*

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<sup>94</sup> Gottesman, Evan. Cambodia After the Khmer Rouge: Inside the Politics of Nation Building (Yale University Press, 2004) pages 186.

<sup>95</sup> Gottesman, Evan. Cambodia After the Khmer Rouge (Yale University Press, 2004) pages 282-284.

<sup>96</sup> Ibid, page 279

*cannot strangle us to death...If the government cannot conduct this kind of trade, the people can do it and we will allow them to do it.*" It was reported that the PRK paid for these consumer goods through the barter trade of dried fish and lobster to Thailand and Singapore.<sup>97</sup>

Louise Williams commented that *"technically, Cambodia is still a socialist State. But the besieged Administration has jettisoned Marxist-Leninist economic theory in favor of the 'market economy,' while retaining its political authority in the name of the 'single-party State.'*" High-level government officials grew wealthy as a result of this so-called *"market economy."* Private businessmen in Cambodia were ordered by the KPRP regime to purchase oil in Singapore and Hong Kong. The government granted these private Cambodian businessmen with timber, rice, and rubber concessions. A diplomat commented that *"The current system is the worst of capitalism and the worst of communism combined...There is a lot of money around town, but this is conspicuous consumption, not investment. Even the locals aren't investing; they'd rather splurge on something flashy."*<sup>98</sup> Hun Sen told a Vietnamese delegation that *"If there is a political solution, we want all state factories to become private factories...We want to set up the factories as follows. Take, for example, a factory worth 100 million. Our Party will own 50 percent of the shares, or 50 million, while the other 50 million will be distributed as shares to the three hundred workers in the factory."*<sup>99</sup>

However, it also appeared that the KPRP sought to eliminate the capitalists as a long term goal once its power was consolidated through the military defeat of the rival communists of the Khmer Rouge and the other noncommunist guerrilla factions. Chan Si noted to the PRK Council of Ministers in April 1983 that *"The unique thing about Cambodia is that Pol Pot annihilated all the capitalists, and we must do whatever we can not to allow them to raise their heads again."* The KPRP issued a resolution in November 1984 called for the *"immediate wiping out of the private sector"* and invoked a *"struggle between two roads, socialism and capitalism."*<sup>100</sup>

Communist usage of the domestic business community before and after a Soviet invasion and occupation or Moscow-supported revolution was indicative of their strategic pragmatism. Such strategic pragmatism was highly opportunistic, which made use of the human and technical resources of the *"class enemy"* In this case study, some domestic capitalists were harnessed for their expertise and then eliminated through mass imprisonment and executions. In the case of China, elements of the capitalist class were partially exterminated/partially harnessed until the mid-1950s. After that period, most of the Chinese ex-capitalists were jailed or killed, while a select few were retained for foreign trade negotiations and propaganda purposes. By the 1980s, the Chinese Communist Party then resurrected and created a new class of *"Red Capitalists"* who were a pillar of support for the system. Hence, the treatment meted out to domestic capitalists after a communist takeover of a country should be a valuable lesson for the plethora of foreign multinational companies and bankers who lobby and trade with the Chinese, Russians, Cubans, Vietnamese, and other likeminded nations.

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<sup>97</sup> Richburg, Keith B. "Cambodians Fight Poverty Through Free Enterprise; Vietnam Takes First Steps Toward Change" Washington Post April 9, 1987 page A1.

<sup>98</sup> "The Lights Go Out in Phnom Penh" Sydney Morning Herald (Australia) May 9, 1991 page 15.

<sup>99</sup> Gottesman, Evan. Cambodia After the Khmer Rouge: Inside the Politics of Nation Building (Yale University Press, 2004) pages 186 and 291.

<sup>100</sup> Gottesman, Evan. Cambodia After the Khmer Rouge: Inside the Politics of Nation Building (Yale University Press, 2004) pages 186 and 291.